

CHAPTER 45-03-23
REGULATION ON THE USE OF CLEARING CORPORATIONS AND FEDERAL
RESERVE BOOK-ENTRY SYSTEM BY INSURANCE COMPANIES

Section

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45-03-23-01. Definitions. As used in this chapter, unless the context requires otherwise, the term:

1. "Agent" means a national bank, state bank, or trust company which maintains an account in its name in a clearing corporation or which is a member of the federal reserve system and through which a custodian participates in a clearing corporation or the federal reserve book-entry system; except that with respect to securities issued by institutions organized or existing under the laws of any foreign country or securities used to meet the deposit requirements pursuant to the laws of a foreign country as a condition of doing business therein, "agent" may include a corporation which is organized or existing under the laws of any foreign country and which is legally qualified under such laws to accept custody of securities.
2. "Clearing corporation" means a corporation as defined in subsection 1 of North Dakota Century Code section 41-08-02 which is organized for the purpose of effecting transactions in securities by computerized book-entry; except that with respect to securities issued by institutions organized or existing under the laws of any foreign country or securities used to meet the deposit requirements pursuant to the laws of a foreign country as a condition of doing business therein, "clearing corporation" may include a corporation which is organized or existing under the laws of any foreign country and which is legally qualified under such laws to effect transactions in securities by computerized book-entry.
3. "Custodian" means a national bank, state bank, or trust company which has at all times aggregate capital, surplus, and undivided profits of not less than one million dollars and which is regulated by either state banking laws or is a member of the federal reserve system and which is legally qualified to accept custody of securities in accordance with the standards set forth below; except that with respect to securities issued by institutions organized or existing under the laws of any foreign country, or securities used to meet the deposit requirements pursuant to the laws of a foreign country as a condition of doing business therein, "custodian" may include a bank, trust company, or similar institution which has at all times aggregate capital, surplus, and undivided profits or not less than the equivalent of one million dollars and which is legally qualified to accept custody of securities.

4. "Federal reserve book-entry system" means the computerized systems sponsored by the United States department of the treasury and certain agencies and instrumentalities of the United States for holding and transferring securities of the United States government and such agencies and instrumentalities, respectively, in federal reserve banks through banks which are members of the federal reserve system or which otherwise have access to such computerized systems.
5. "Securities" means certificated securities and uncertificated securities as defined in subdivisions d and r of subsection 1 of North Dakota Century Code section 41-08-02.

History: Effective March 1, 2004.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 26.1-05-35

45-03-23-02. Custody of agreement - Requirements.

1. An insurance company may provide, by written agreement with a custodian, for the custody of its securities with a custodian, which securities may be held by the custodian or its agent or in a clearing corporation or in the federal reserve book-entry system. Securities so held, whether held by the custodian or its agent or in a clearing corporation or in the federal reserve book-entry system, are referred to herein as "custodied securities".
2. Any such agreement must be in writing and must be authorized by the resolution of the board of directors of the insurance company or of an authorized committee thereof. The terms of the agreement must comply with the following:
 - a. Certified securities held by the custodian must be held either separate from the securities of the custodian and of all of its other customers or in a fungible bulk of securities as part of a filing of securities by issue arrangement.
 - b. Securities held in a fungible bulk by the custodian and securities in a clearing corporation or in the federal reserve book-entry system must be separately identified on the custodian's official records as being owned by the insurance company. Said records must identify which custodied securities are held by the custodian or by its agent and which securities are in a clearing corporation or in the federal reserve book-entry system. If the securities are in a clearing corporation or in the federal reserve book-entry system, said records must also identify where the securities are and, if in a clearing corporation, the name of the clearing corporation and, if through an agent, the name of the agent.

- c. All custodied securities that are registered must be registered in the name of the company or in the name of a nominee of the company or in the name of the custodian or its nominee or, if in a clearing corporation, in the name of the clearing corporation or its nominee.
- d. Custodied securities shall be held subject to the instructions of the insurance company and shall be withdrawable upon the demand of the insurance company, except that custodied securities used to meet the deposit requirements set forth in North Dakota Century Code section 26.1-05-23 must, to the extent required by that section, be under the control of the insurance commissioner and must not be withdrawn by the insurance company without the commissioner's approval.
- e. The custodian shall be required to send or cause to be sent to the insurance company a confirmation of all transfers of custodied securities to or from the account of the insurance company. In addition, the custodian shall be required to furnish the insurance company with reports of holdings of custodied securities at such times and containing such information as may be reasonably requested by the insurance company.
- f. During the course of the custodian's regular business hours, any officer or employee of the insurance company, any independent accountant selected by the insurance company, and any representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, the custodian's records relating to custodied securities.
- 9. The custodian and its agents shall be required to send to the insurance company:
 - (1) All reports which they receive from a clearing corporation or the federal reserve book-entry system on their respective systems of internal accounting control; and
 - (2) Any reports prepared by outside auditors on the custodians or its agent's internal accounting control of custodied securities that the insurance company may reasonably request.
- h. The custodian shall maintain records sufficient to determine and verify information relating to custodied securities that may be reported in the insurance company's annual statement and supporting schedules and information required in any audit of the financial statements of the insurance company.
- i. The custodian shall provide, upon written request from an appropriate officer of the insurance company, the appropriate

affidavits, substantially in the form attached hereto, with respect to custodied securities.

- j. The custodian shall be obligated to indemnify the insurance company for any loss of custodied securities occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.
- k. In the event that there is a loss of custodied securities for which the custodian shall be obligated to indemnify the insurance company, the custodian shall promptly replace the securities or the value thereof and the value of any loss of rights or privileges resulting from said loss of securities.
- l. The agreement may provide that the custodian will not be liable for any failure to take any action required to be taken under the agreement in the event and to the extent that the taking of such action is prevented or delayed by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil commotion, act of God, accident, fire, explosion, laws, regulations, orders, or other acts of any governmental authority, or any other cause whatever beyond its reasonable control.
- m. In the event that the custodian gains entry in a clearing corporation or in the federal reserve book-entry system through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian; provided, however, that if the agent shall be subject to regulation under the laws of a jurisdiction which is different from the jurisdiction the laws of which regulate the custodian, the insurance commissioner of the state of domicile of the insurance company may accept a standard of liability applicable to the agent which is different from the standard of liability applicable to the custodian.
- n. The custodian shall provide written notification to the insurer's domiciliary commissioner if the custodial agreement with the insurer has been terminated or if one hundred percent of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the insurance commissioner within three business days of the receipt by the custodian of the insurer's written notice of termination or within three business days of the withdrawal of one hundred percent of the account assets.

History: Effective March 1, 2004.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 26.1-05-35

45-03-23-03. Deposit with affiliates - Requirements.

1. Nothing prevents an insurance company from depositing securities with another insurance company with which the depositing insurance company is affiliated, provided that the securities are deposited pursuant to a written agreement authorized by the board of directors of the depositing insurance company or an authorized committee thereof and that the receiving insurance company is organized under the laws of one of the states of the United States or of the District of Columbia. If the respective states of domicile of the depositing and receiving insurance companies are not the same, the depositing insurance company shall have given notice of such deposit to the insurance commissioner in the state of its domicile and the commissioner shall not have objected thereto within thirty days of the receipt of said notice.
2. The terms of such an agreement must comply with the following:
 - a. The insurance company receiving the deposit shall maintain records adequate to identify and verify the securities belonging to the depositing insurance company.
 - b. The receiving insurance company shall allow representatives of any appropriate regulatory body to examine records relating to securities held subject to the agreement.
 - c. The depositing insurance company may authorize the receiving insurance company:
 - (1) To hold the securities of the depositing insurance company in bulk, in certificates issued in the name of the receiving insurance company or its nominee, and to commingle them with securities owned by other affiliates of the receiving insurance company; and
 - (2) To provide for such securities to be held by a custodian, including the custodian of securities of the receiving insurance company or in a clearing corporation or the federal reserve book-entry system.

History: Effective March 1, 2004.

General Authority: NDCC 28-32-02

Law Implemented: NDCC 26.1-05-35

APPENDIX I

FORM A CUSTODIAN AFFIDAVIT

(For use by a custodian where securities entrusted to its care have not been redeposited elsewhere)

STATE OF _____)
) ss.
COUNTY OF _____)

_____, being duly sworn deposes and says that he is _____ of _____, a banking corporation organized under and pursuant to the laws of the _____ with the principal place of business at _____ (hereinafter called the "bank"):

That his duties involve supervision of activities of the bank as custodian and records relating thereto;

That the bank is custodian for certain securities of _____ having a place of business at _____ (hereinafter called the "insurance company") pursuant to an agreement between the bank and the insurance company;

That the schedule attached hereto is a true and complete statement of securities (other than those caused to be deposited with The Depository Trust Company or like entity or a Federal Reserve Bank under the Federal Reserve book-entry procedure) which were in the custody of the bank for the account of the insurance company as of the close of business on _____; that, unless otherwise indicated on the schedule the next maturing and all subsequent coupons were then either attached to coupon bonds or in the process of collection; and that, unless otherwise shown on the schedule, all such securities were in bearer form or in registered form in the name of the insurance company or its nominee, or were in the process of being registered in such form;

That the bank as custodian has the responsibility for the safekeeping of such securities as that responsibility is specifically set forth in the agreement between the bank as custodian and the insurance company; and

That, to the best of his knowledge and belief, unless otherwise shown on the schedule, said securities were the property of said insurance company and were free of all liens, claims, or encumbrances whatsoever.

Subscribed and sworn to before me this

_____ day of _____, 20____.

(L.S.)

Vice President (or other
authorized officer)

APPENDIX II

FORM B CUSTODIAN AFFIDAVIT

(For use in instances where a custodian bank maintains securities on deposit with The Depository Trust Company or like entity)

STATE OF _____)
) ss.
COUNTY OF _____)

_____, being duly sworn deposes and says that he is _____ of _____, a banking corporation organized under and pursuant to the laws of the _____ with the principal place of business at _____ (hereinafter called the "bank");

That his duties involve supervision of activities of the bank as custodian and records relating thereto;

That the bank is custodian for certain securities of _____ having a place of business at _____ (hereinafter called the "insurance company") pursuant to an agreement between the bank and the insurance company;

That the bank has caused certain of such securities to be deposited with _____ and that the schedule attached hereto is a true and complete statement of the securities of the insurance company of which the bank was custodian as of the close of business on _____, and which were so deposited on such date;

That the bank as custodian has the responsibility for the safekeeping of such securities both in the possession of the bank or deposited with _____ as is specifically set forth in the agreement between the bank as custodian and the insurance company; and

That, to the best of his knowledge and belief, unless otherwise shown on the schedule, said securities were the property of said insurance company and were free of all liens, claims, or encumbrances whatsoever.

Subscribed and sworn to before me this

_____ day of _____, 20____.

(L.S.)

Vice President (or other
authorized officer)

APPENDIX III

FORM C CUSTODIAN AFFIDAVIT

(For use where ownership is evidenced by book-entry at a Federal Reserve Bank)

STATE OF _____)
) ss.
COUNTY OF _____)

_____, being duly sworn deposes and says that he is
_____ of _____, a banking corporation organized under and
pursuant to the laws of the _____ with the principal place of business at
_____ (hereinafter called the "bank"):

That his duties involve supervision of activities of the bank as custodian and records relating thereto;

That the bank is custodian for certain securities of _____
with a place of business at _____ (hereinafter called
the "insurance company") pursuant to an agreement between the bank and the
insurance company;

That it has caused certain securities to be credited to its book-entry account with
the Federal Reserve Bank of _____ under the Federal
Reserve book-entry procedure; and that the schedule attached hereto is a true and
complete statement of the securities of the insurance company of which the bank
was custodian as of the close of business on _____ which were
in a 'General' book-entry account maintained in the name of the bank on the books
and records of the Federal Reserve Bank of _____ at such date;

That the bank has the responsibility for the safekeeping of such securities both in
the possession of the bank or in said general book-entry account as is specifically
set forth in the agreement between the bank as custodian and the insurance
company; and

That, to the best of his knowledge and belief, unless otherwise shown on the
schedule, said securities were the property of said insurance company and were
free of all liens, claims, or encumbrances whatsoever.

Subscribed and sworn to before me this

_____ day of _____, 20____.

(L.S.)

Vice President (or other
authorized officer)